

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019 SESSION

BAC2684 – FINANCIAL STATEMENT ANALYSIS
(All Section / Groups)

22nd OCTOBER 2018
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTION TO STUDENT

1. This question paper consists of 4 pages excluding cover page with 4 Questions only.
2. Attempt ALL questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided

QUESTION 1

Assume you are an analyst evaluating Ultramax Company. The following data are available in your financial analysis (unless otherwise indicated, all data are as of October 31, Year 18):

Retained earnings, October 31, Year 17	RM98,000	Days' sales in receivables	18 days
Gross profit margin ratio	25%	Shareholders' equity to total debt	4 to 1
Acid-test ratio	4.1667 to 1	Sales (all on credit)	RM920,000
Noncurrent assets	RM280,000		
Days' sales in inventory	45 days	Common stock: RM18 par value; 10,000 shares issued and outstanding; issued at RM24 per share	

Required:

Using these data, construct the Ultramax's Balance Sheet as at October 31, Year 18. The operating expenses (excluding taxes and cost of goods sold for Year 18) are RM180,000. The tax rate is 40%. Assume a 360-day year in ratio computations. No cash dividends are paid in either Year 17 or Year 18. Current assets consist of cash, accounts receivable, and inventories.

(Total: 25 marks)

QUESTION 2

ZAMAN BHD
Statement of Financial Position as at March 31, 2017 and 2016

Assets	2017		2016	
	RM'000	RM'000	RM'000	RM'000
Cash		500		640
Accounts receivable, net		860		550
Inventories		935		790
Prepaid expenses		25		-
Total current assets		2,320		1,980
Patents	145			
Less accumulated amortization	(15)	130		
Plant and equipment	2,650		1,950	
Less accumulated depreciation	(600)	2,050	(510)	1,440

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Other assets	200	175	
Less accumulated depreciation	(30)	170	(25) 150
Total assets		4,670	3,570
Liabilities and Equity			
Accounts payable	630	600	
Deferred income tax	57	45	
Other current liabilities	85	78	
Total current liabilities	772	723	
Long-term debt	1,650	850	
Common stock, RM1 par	2,000	1,800	
Retained earnings	248	197	
Total liabilities and equity	4,670	3,570	

In addition, the following information is available:

1. Net income for 2017 is RM203,000 and for 2016 is RM177,000.
2. During 2017 the company purchases patents for RM145,000 in cash. Amortization of patents during the year amounts to RM15,000.
3. Cash dividends paid during 2017 are RM98,000 and during 2016 are RM77,000.
4. Deferred income tax for 2017 amounts to RM12,000 and for 2016 amounts to RM15,000.
5. Depreciation expense charged to income during 2017 is RM105,000, and the provision for bad debts (expense) is RM40,000. Expenses include cash payments of RM15,000 in interest costs and RM60,000 in income taxes.

Required:

- a. Prepare a statement of cash flows (indirect method) for 2017. (15 marks)
- b. Explain the discrepancy between net income and cash flows from operations. (4 marks)
- c. Describe options available to management to remedy the cash deficiency. (6 marks)

(Total: 25 marks)

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QUESTION 3

Cemerlang Corporation sells primarily two products: (F) computer mouse pad and (G) wireless computer mouse. Its gross margin and components for the past two years are as follows:

	Year 17	Year 16
	RM	RM
Sales revenue		
Product F	60,000	35,000
Product G	30,000	45,000
Total	90,000	80,000
Deduct cost of goods sold		
Product F	50,000	28,000
Product G	19,500	27,000
Total	69,500	55,000
Gross margin	20,500	25,000

In Year 16, the selling price of F is RM5 per unit, while in Year 17 it is RM6 per unit. Product G sells for RM50 per unit in both years. Securities analysts and the business press expressed surprise at Cemerlang's 12.5% increase in sales and RM4,500 decrease in gross margin for Year 17.

Required:

- Prepare an analysis statement of the change in gross margin for Year 17 versus Year 16. (17 marks)
- i) Why interest expense is ignored when computing return on net operating assets? (4 marks)
- ii) How return on invested capital is used as an internal management tool? (4 marks)

(Total: 25 marks)

QUESTION 4

Beta Sdn Bhd purchases its merchandise at current market costs and resells the product at a price 50 cents higher. Its inventory costs are constant throughout the current year. Data on the number of units in inventory at the beginning of the year, unit purchases, and unit sales are shown here:

Number of units in inventory—beginning of year @ RM2 per unit cost for 20,000 units.

Number of units purchased during year @ RM2.30 per unit cost for 15,000 units.

Number of units sold during year @ RM2.80 per unit selling price for 25,000 units.

Continued

The beginning-of-year statement of financial position for Beta Sdn Bhd reports the following:

Inventory (20,000 units @ RM2)... RM40,000.

Total equity.....RM40,000.

Required:

- a. Compute the after-tax profit of Beta Sdn Bhd separately for both the (1) FIFO and (2) LIFO methods of inventory valuation assuming the company have no expenses other than the cost of goods sold and its income tax rate is 25%. Taxes are accrued currently and paid the following year. (10 Marks)
- b. If all sales and purchases are for cash, construct the statement of financial position at the end of this year separately for both the (1) FIFO and (2) LIFO methods of inventory valuation. (10 Marks)
- c. Describe the significance of each of these methods of inventory valuation for income determination and financial position in a period of increasing costs. (5 Marks)

(Total: 25 marks)

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